March 30, 2021

NLC TamilNadu Power Limited: Long-term rating reaffirmed; outlook revised to Negative; short-term rating assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loans	2257.47	1890.92	[ICRA]AA+(CE) Reaffirmed; Outlook revised to Negative from Stable
Long-term, Fund-based working capital limits	1500.00	1500.00	[ICRA]AA+(CE) Reaffirmed; Outlook revised to Negative from Stable
Long-term, Unallocated	1000.00	366.55	[ICRA]AA Reaffirmed; Outlook revised to Negative from Stable
Long-term / Short-term Fund Based	0.00	1000.00	[ICRA]AA Reaffirmed; Outlook revised to Negative from Stable [ICRA]A1+ assigned
Total	**4757.47**	**4757.47**	

Rating Without Explicit Credit Enhancement	[ICRA]AA

**Instrument details are provided in Annexure-1*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]AA (Negative) rating

The revision in outlook to Negative for the standalone rating reflects the continued high receivable levels, due to NLC Tamil Nadu Power Limited's (NTPL) exposure to financially weak discoms[1] such as Tamil Nadu Generation and Distribution Corporation Ltd (TANGEDCO), which accounts for nearly 40% of its revenues. The company's receivables have increased to Rs. 2,102.0 crore as on March 31, 220 and to Rs. 2,532.0 crore as on February 28, 2021 from Rs. 1,575.6 crore as on March 31, 2019. The receivable situation was further exacerbated by the Covid-19 pandemic in the current fiscal, despite some relief provided under the Atmanirbhar Package to the discoms. While ICRA takes notes of the steps being taken by the company along with other stakeholders to reduce the receivables, the timeliness and the quantum of reduction remains to be seen and the developments will be monitored.

The reaffirmation of the standalone ratings considers the benefits derived by NTPL from its parent, NLC India Limited (NLCIL), a Navratna entity rated at [ICRA] AAA (Negative), with an established track record of more than 50 years in lignite mining and power generation segments. NLCIL holds 89% stake in NTPL. ICRA takes note of the shared management, operational and financial linkages and the track record of financial support provided by the parent. The ratings consider the presence of long-term cost-plus power purchase agreement (PPA), for the entire capacity based on Central Electricity Regulatory Commission's (CERC) tariff regulations, which ensures steady revenues and assured return potential. ICRA also factors the presence of assured long-term fuel supply agreement (FSA) that ensures long-term domestic coal linkage for the entire capacity.

[1] Distribution Companies

However, the ratings consider the impact on the PLF levels of the plant on account of NTPL's relatively weak merit order position, arising from the availability of low-cost merchant power for the discoms, thereby resulting in power surrender. ICRA notes that the company is trying to mitigate the impact of power surrender by selling its un-requisitioned surplus (URS) power over the exchanges through its parent, NLCIL. However, the actual impact of the initiative on the profit and the sustained improvement in PLF levels remain to be seen. The ratings factor in the moderate return indicators of the company because the approved capital cost, as per the current tariff order, is lower than the actual incurred capital cost. ICRA notes that the company has appealed for inclusion of the disallowed cost with APTEL[2] and further, in the tariff petition for 2019-2024, it has requested for the inclusion of capex incurred post COD for tariff consideration. The outcome of the tariff order and the quantum of incremental cost considered by APTEL will be monitored.

For the [ICRA]AA+ (CE) (Negative) rating

The revision in outlook to Negative reflects the continued high receivable levels owing to NLCIL's high exposure to financially weak discoms, despite some receipt of dues from the funds released to discoms under the Atmanirbhar Package by the Government of India (GoI). While ICRA takes notes of the steps being taken by NLCIL, along with other stakeholders to reduce the receivables, the timeliness and the quantum of reduction remains to be seen and the developments will be monitored.

The reaffirmation of [ICRA]AA+ (CE) rating for the long-term working capital and the term loan facilities of NTPL is based on the letter of comfort (LOC) provided by NLCIL, which holds 89% stake in NTPL.

Adequacy of credit enhancement

For assigning the ratings, ICRA has assessed the attributes of LOC provided by NLCIL in favour of the said facilities. Taking cognisance of the above credit enhancement, ICRA has assigned a rating of [ICRA]AA+(CE)(Negative) to the said facilities against the unsupported rating of [ICRA]AA. In case the ratings of the support provider or the unsupported rating of NTPL were to undergo a change in future, the same would have a bearing on the ratings of the aforesaid facilities as well. The ratings may also undergo a change in scenario if in ICRA's assessment there is a change in the strength of the business linkages between the LOC provider and the rated entity, or there is a change in the reputation sensitivity or change in the strategic importance of the rated entity for the LOC provider.

Salient covenants related to the credit enhancement, as specified in the LOC

» LOC provider shall undertake to follow very closely the financial situation of NTPL from time to time and NLCIL shall ensure NTPL complies and meets the obligations, including the repayment of interest along with other interest and other monies due on the due dates.

» LOC provider exercises administrative and management control through its nominee directors on the board of directors of NTPL.

» The LOC provider will not dilute its shareholding (89%) in borrowing company without the specific approval of the bank/consortium of bankers/financial corporation/financial institutions.

Key rating drivers and their description

Credit strengths

Strong parentage of NLCIL which owns 89% stake in the project – NTPL benefits from its strong parentage with NLCIL, which holds 89% stake in the company. NLCIL has an installed capacity of over 6,600 MW at present, with an established track record of more than 50 years in lignite mining and power generation segments. NLCIL had provided equity capital (in the proportion of its ownership) for the budgeted cost as well cost overruns for the project. It has a demonstrated track record of financial support. The parent also provides other operational and technical support. NLCIL and NTPL are led by a common Chairman and other senior officials of NLCIL are also a part of the board of directors/management team of NTPL.

[2] *Appellate Tribunal for Electricity*

Long-term PPA with cost -plus tariff – NTPL has inked a PPA with the southern discoms, for the entire quantum of power generated with cost plus tariff based on CERC guidelines. The power is sold mainly to Tamil Nadu, Karnataka, Kerala, Andhra Pradesh, Telangana and Pondicherry discoms (~40% to Tamil Nadu state discom). This mitigates the offtake risks for the company to an extent. The tariff is determined by the CERC as per the two-part tariff methodology, whereas the fixed and energy charges are calculated and approved separately. The fixed charges, which include a stable return on equity and operation of the plants at desired parameters, would result in a healthy profitability at the company level.

Assured fuel supply – NTPL has signed long-term FSA with Mahanadi Coal Fields Limited (MCL) to procure 3-MMTPA coal, a wholly-owned subsidiary of CIL. NTPL has also signed a long-term fuel supply agreement (FSA) with Eastern Coalfields Limited (ECL) to procure 1.3-MMTPA coal. Further, based on the requirement, NTPL procures imported coal through tendering process. In addition to this, NLCIL has an allotted block in Talabira, Odisha, which is expected to supply coal to NTPL's plant going forward.

Credit challenges

High receivable build-up due to exposure to state distribution utilities with weak financial profile – ICRA notes that there has been build-up of receivables over the last few years due to stretched payment from state distribution utilities with weak financial profile, leading to high working capital requirements. The situation was exacerbated in the current fiscal owing to the impact of Covid-19 pandemic, resulting in elevated receivables, although partly mitigated by release of funds to the discoms under the Atmanirbhar Package. ICRA further takes note of the steps taken by the company to recover the outstanding dues. However, the timeliness and quantum of recovery remain to be seen and will be monitored.

Current low power tariff scenario increases risks of power surrender by discoms; expected to be partly mitigated with power trading through exchanges – The overall demand supply position has changed in the power sector over the recent years with the improvement in transmission network and the availability of cheap renewable power. This has resulted in the discoms increasingly surrendering high cost thermal power, which has impacted the PLF levels of thermal plants. NTPL has witnessed power surrender from the discoms since its first full year of operations, which resulted in moderate PLF levels in the range of 61.8% -71.4% (excluding the power surrendered) during FY2017 and FY2018. The company's PLF levels witnessed further moderation in FY2019 and FY2020 due to a fire accident in January 2019. Nonetheless, the operations have been fully restored and the plant is currently operating at pre-accident levels. However, the power surrender levels remain high on account of its continued lower position in the merit order. There has been some improvement in PLF (excluding power surrender) in 9M FY2021, despite the impact on demand caused by the pandemic, which can be attributed to the preceding year being affected by the accident. This has resulted in improved financial performance during 9M FY2021 compared to 9M FY2020. Going forward, ICRA notes that the normative variable cost for the company remains relatively high at Rs. 3.17/unit (as per tariff petition filed by NTPL for 2019-2024), although the actual cost has witnessed some moderation over the last few months and may witness moderation once supply of coal from Talabira mines increase. This may mitigate the offtake risk faced by company due to its lower ranking on merit order dispatch for discoms.

Further, ICRA notes that, going forward, the risk of power surrender would be partly mitigated as the company started to sell its un-requisitioned surplus (URS) power over the exchanges, which would result in enhancing the revenue and also recovering the energy charge to an extent. However, the actual impact and sustained improvement in PLF levels remain to be seen.

Moderate return indicators due to lower approved project costs compared to actual capex; project returns might witness improvement during true-up – Although the tariff is of a cost-plus nature, the regulatory framework allows for the recovery of only approved capital costs. For NTPL, as per the tariff order dated July 11, 2017, CERC had allowed Rs. 5,233.77 crore, against the total project cost of Rs. 7,293.49 crore, disallowing interest during construction and other overheads. The undischarged liability position as on date of commissioning stood at Rs. 1,069 crore. This has resulted in moderate return indicators. NTPL has filed an appeal with APTEL for the disallowed portion to be considered in tariff. Besides this, from the date of COD till March 31, 2018, NTPL has incurred a capital expenditure of Rs. 774.38 crore, which has been included for consideration by the company in the tariff petition filed for the period 2019-2024. The outcome of the tariff order and the quantum of incremental project cost considered by APTEL remain a sensitivity factor for the project returns and will be monitored.

Liquidity position: Adequate

For the [ICRA]AA+(CE) rating: Adequate

NLCIL has traditionally maintained healthy cash balances owing to sizeable operational cash generation. However, the share buyback and consistently high dividend resulted in cash outflows and have decreased the overall liquid surplus available with the company. In addition, increased working capital intensity resulted in elevated receivables as of February 2021 due to large arrears from discoms related to older payments.

Though the cash balances have moderated, the projected cash generation of NLC is primarily expected to be **adequate** to meet the equity commitments of the ongoing and planned projects for the next three years. The availability of working capital limits of Rs. 1,500.0 crore, with an average utilisation of ~75%, is likely to provide adequate liquidity buffer.

For the [ICRA]AA rating: Adequate

NTPL has a track record of positive fund flow from operations since the commissioning of the plant. However, the cash flows in FY2020 were adversely impacted by the fire accident. With the restoration of operations at optimal level, the cash flows are expected to recover in FY2021. The company has repayment obligations of Rs. 492 crore per annum in FY2021 and FY2022. It has capex commitment of ~Rs. 818.4 crore for FY2021-FY2024, for which the expected equity contribution will be around Rs. 245.4 crore. The repayment on the additional debt for the project is likely to commence only from FY2026. The liquidity position remains adequate to meet these obligations, supported by expected cash accruals, availability of unutilised working capital limits (Rs. 1,500.0 crore sanctioned limits with average utilisation of ~75%), ability to issue commercial paper at fine rates and financial support in the form of standing fund arrangement from the parent worth Rs. 1,000.0 crore.

Rating sensitivities

For the [ICRA]AA+(CE) rating

The ratings assigned to the Rs. 1,890.92-crore long-term term loan facilities and Rs. 1,500.00-crore long-term fund-based working capital facilities would remain sensitive to any movement in the rating or outlook of NLCIL.

For the [ICRA]AA rating

Positive factors – ICRA could upgrade NTPL's ratings if there is significant reduction in receivable levels on a sustained basis, leading to improvement in working capital intensity. Further, the quantum of incremental capital cost (not considered in current tariff) approved by the regulator during truing up remains a sensitivity factor, which if results in significant improvement in return indicators, may lead to revision in ratings.

Negative factors – Negative pressure on NTPL's ratings may arise if the working capital intensity remains elevated, on account of delay in payments for the current/past dues resulting in build-up of receivables, thereby impacting the liquidity position or if there is significant moderation in PLF levels on a sustained basis. Negative pressure on NTPL's ratings will also arise if there is significant deterioration in the credit profile of the parent – NLC India Limited or if the linkages between the parent and NTPL weaken.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Approach for rating debt instruments backed by third-party explicit support](#)
Parent/Group Support	Parent/Group Company: NLC India Limited The rating for the Rs. 1,890.92-crore term loans and Rs. 1,500-crore working capital facilities is based on the LoC extended by NLC India Limited. The standalone rating considers the implicit benefits of being a subsidiary of NLC India Limited and the managerial, financial and operational linkages between the two entities.
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

NLC Tamil Nadu Power Limited (NTPL) is a joint venture between Neyveli Lignite Corporation Limited (NLC) and the Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO). NLC holds 89% of the share in equity, along with the management control of the company, while TANGEDCO holds the balance 11% of the equity. The JV was incorporated on November 18, 2005 and the project was conceived by NLC as a part of its expansion strategy. Tuticorin, Tamil Nadu was chosen to set up 2x500 MW coal-based thermal power plant. The total cost of set up is Rs. 7,293 crore, funded through a mix of debt and equity in the ratio of 70:30. The power plant commenced its operation on June 18, 2015 and August 29, 2015 for Unit I (500 MW) and Unit II (500 MW), respectively.

Key financial indicators NTPL (audited)

NTPL	FY2019	FY2020	9M FY2021
Operating Income (Rs. crore)	2,892.5	2,669.0	2,203.6
PAT (Rs. crore)	270.7	143.2	260.8
OPBDIT/OI (%)	31.0%	34.2%	40.3%
PAT/OI (%)	9.4%	5.4%	11.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	2.5	2.1
Total Debt/OPBDIT (times)	5.5	5.8	4.2
Interest Coverage (times)	2.0	2.0	3.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

About NLC India Limited

NLC India Limited (NLC; erstwhile Neyveli Lignite Corporation Limited), a public sector undertaking incorporated in November 1956, is involved in the activities of lignite mining and power generation. The company, at present, has lignite mining capacity of 30.6 million tonnes per annum (MTPA) and installed power generation capacity of over 6,600 megawatt (MW). NLC's power stations cater to the five southern states of Tamil Nadu, Andhra Pradesh, Kerala, Karnataka and Puducherry, as well as Rajasthan through its newly commissioned thermal plant in Barsingsar. The Government of India (GoI) holds ~82% stake in the company. The company works under the administrative control of the Ministry of Coal, GoI. In April 2011, the Government of India declared the company as a Navratna enterprise.

Key financial indicators NLCIL (audited)

NLCIL Consolidated	FY2019	FY2020	9M FY2021
Operating Income (Rs. crore)	10,477.0	11,388.8	7,006.5
PAT (Rs. crore)	1537.4	1452.2	588.6
OPBDIT/OI (%)	27.7%	39.7%	27.9%
PAT/OI (%)	14.6%	12.7%	7.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.78	2.10	-
Total Debt/OPBDIT (times)	7.10	6.06	-
Interest Coverage (times)	4.14	3.85	1.94

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years	
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	
					Mar 30, 21	Mar 20, 20	Feb 13, 20
1	Term Loan	Long Term	1890.92	1890.92	**[ICRA]AA+(CE) (Negative)**	**[ICRA]AA+(CE) (Stable)**	**[ICRA]AA+(CE) (Stable)**
2	Fund-based working capital facilities	Long Term	1500.00	NA	**[ICRA]AA+(CE) (Negative)**	**[ICRA]AA+(CE) (Stable)**	**[ICRA]AA+(CE) (Stable)**
3	Long-term, Unallocated	Long Term	366.55	NA	**[ICRA]AA (Negative)**	**[ICRA]AA (Stable)**	-
4	Long Term / Short Term - Fund Based	Long Term	1000.00	NA	**[ICRA]AA (Negative)/ [ICRA]A1+**	**[ICRA]AA (Stable)**	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	FY2016	NA	FY2026	1628.05	[ICRA]AA+(CE) (Negative)
NA	Term Loan-II	FY2019	NA	FY2027	262.87	[ICRA]AA+(CE) (Negative)
NA	Fund-based Working capital facilities	NA	NA	NA	1500.00	[ICRA]AA+(CE) (Negative)
NA	Long-term, Unallocated	NA	NA	NA	366.55	[ICRA]AA (Negative)
NA	Long Term / Short Term - Fund Based	NA	NA	NA	1000.00	[ICRA]AA (Negative)/ [ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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